STOP PLAYING POLITICS IN THE DARK

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Clive has over 30 years of experience as a UK/EU energy analyst and policy adviser. He led a consortium of energy market participants and investors during consultations with Government on the content and subsequent implementation of the 2013 Electricity Act and, more recently, he founded and chaired the cross-industry UK Energy Security Group (UKESG) from 2017-19.

My introduction to the politics of energy was a baptism of fire. It was 1992. The BBC's Newsnight programme called to ask if my 'little known' client, Enron, would be willing to debate the future of UK energy security, and the pros and cons of gas versus coal, with 'King Coal' Arthur Scargill.

That night, and subsequently, the arguments for cleaner and cheaper gas prevailed. The Conservative Government had political reasons for wanting to see a reduction in the UK's dependence on coal but the fundamental economic driver behind what became known as the "Dash for Gas" was that it would provide reliable and affordable energy.

This emergence of gas as the dominant source of heat and power is the primary reason why, in the last ten years, it has been possible to impose a premium tax on carbon to accelerate the demise of coal and reduce UK emissions significantly without too much damage to energy supply and price security.

As a route to 'Net Zero', removing coal from the energy mix was the easy bit.

Achieving further cost-effective reductions in carbon emissions will be far more challenging. Benefits are still ill-defined. Scant attention has been paid to the timing of the transition, the direct and opportunity costs involved and who pays.

Yet, with only a year to go before the next General Election, all the main Parties have declared themselves in favour of "Net Zero" by 2050 and set a strictly political timetable for the elimination of natural gas from the energy mix with Labour promising it by 2030 and the Tories- a little more cautious - by 2035.

In my view, these targets are not feasible and such virtue-signalling is taking a reckless gamble with our energy security and playing politics in the dark.

The answer to our energy security problem is not quadrupling the number of intermittent wind farms, building more electricity interconnectors, or hugely expensive large or small- scale nuclear reactors, or forcing consumers to dump reliable gas boilers for heat pumps.

Furthermore, the commercial viability, system reliability and scalability of many "green" technologies such as battery storage, "green" hydrogen, mini-nuclear reactors and carbon capture storage and utilisation, have yet to be proven.

Until they are, there is an urgent need to underpin the security of the current gas to power chain – something that has been ignored for the last ten years.

In the words of Bernard Looney, CEO of BP, the Government should be “investing in today’s system as well as investing in the transition” to underpin supply and price security.

In its recent “Powering Britain” announcement, the Government missed an excellent opportunity to begin the process of managing voter expectations and adopting a more balanced, longer-term and cost-effective approach to “Net Zero”.

There is nothing in the recent “Net Zero” strategy that explains how the Government intends to substantiate its claim that the current policy “recognises the vital role that oil and gas will play in the transition to “Net Zero”.

Nor,is there any detailed indication of the overall impact of infrastructure costs, such as supporting new nuclear construction, on taxation and Government sector borrowing

Neither is there a clear vision of the scale nor the immediate and direct cost to taxpayers and consumers of so-called “green” levies which will disproportionally impact those consumers less able to pay.

To facilitate this shift to a more balanced and cost-effective approach, I strongly recommend no delay in scaling back decarbonisation targets and implementing without delay the following FIVE specific actions to underpin gas and power security:

1. Impose a Public Service Obligation (PSO) on gas suppliers and shippers in the UK to store a greater proportion of their estimated demand for gas for heat and power, thereby underpinning new investment in gas storage (currently less than 2% of total demand compared with an average 25% in the EU). Additional storage infrastructure would provide short term supply flexibility and mitigate adverse impact of future wholesale market price volatility;

2. Do more now to avoid blanket shut- downs and increase short-term liquidity in the gas market through a system of Demand Side Reduction (DSR) (as with electricity) because new storage will take about 5 years to build. Meanwhile the System Operator should be given direct responsibility for the real-time balancing of the gas market as it does in the electricity market.

An auction with an option clearing price would reward a significant number of industrial users for voluntarily curtailing (if required) their gas demand at times of system stress. In this way the System Operator would know in advance of Winter the level of potential demand flexibility available via DSR.

3. Impose on the System Operator (SO) an obligation to ensure that the power reliability margin is not allowed to fall below ten per cent of projected demand. This would empower the Department for Energy Security and Net Zero to establish a separate auction for peak unabated OCGT gas generation to compensate for

intermittent renewable power generation. This would also eliminate the need for expensive, short- term market balancing measures including “blackouts”;

4. Remove the 2035 deadline for banning the sale of natural gas boilers for domestic heating. At the moment, heat pumps and/or hydrogen are not technically feasible, scalable or affordable. Indeed, current subsidies to encourage electrification of domestic heating and transport benefit the “better off” more able to adapt and afford new technologies. As a matter of principle all consumers should be left to decide if and when they want to and can afford to use various “green” technologies.

I have proposed that these security provisions be introduced into the current Energy Bill. However, especially in the light of recent bad Local Election results, such measures are unlikely to be included because of fears that it would further damage Tory Election prospects if they were seen to be doing anything now that could be viewed as postponing the 2050 “Net Zero” deadline.

But it’s possible that voters could react very differently.

It is worth looking at what is happening in Germany and Italy. Voters are turning against moving too fast and closing our eyes to the technical, commercial and, particularly, the cost limitations of CCS, offshore wind, and nuclear, and the electrification of heat and transport.

I suspect this trend will only strengthen as the massive level of public financial support required to ignite the desired level of private sector investment, to achieve the 2050 “Net Zero” target, is becoming increasingly apparent.

5. This brings me to my fifth and probably the most far-reaching proposal - namely to take the politics out of energy.

So far, the “Net Zero” debate has been a ’top down’ initiative; more supply-push than demand-pull with wishful thinking and advocacy replacing robust analysis.

I believe that this bias and politicisation would be removed with the creation of an independent Strategic Energy Authority (SEA), with an independent chair and expert management board.

This would remove the need for the Climate Change Committee. It would also take away the need for Ofgem with retail competition issues being moved to the Competition and Markets Authority (CMA).

In addition, an SEA would remove lingering concerns about any potential conflict of interest within the National Grid between its commercial objectives and its role as an independent System Operator. This could also avoid any bias in favour of subsidising more electricity interconnectors, which are not a cost-effective or reliable source of energy security.

In summary an SEA would:

1. set longer term investment targets for generation transmission and distribution based on the need to balance emissions reduction against security and affordability

2. create a consistent and cost-effective policy framework, such as a long-term gradual price trajectory for carbon and capacity auctions, to ensure fair competition between different forms of energy supply

3. oversee the system operation of both the electricity and gas market and facilitate greater liquidity in the short- term balancing market for gas eg via more gas storage and managed DSR.

4. liaise directly with Treasury to define and publish long- term budgets for taxes and levies impacting consumers and industry.

In the words of one recent Prime Minister this would be a ‘grown-up’ approach to energy.

Clive Moffatt - May 2023